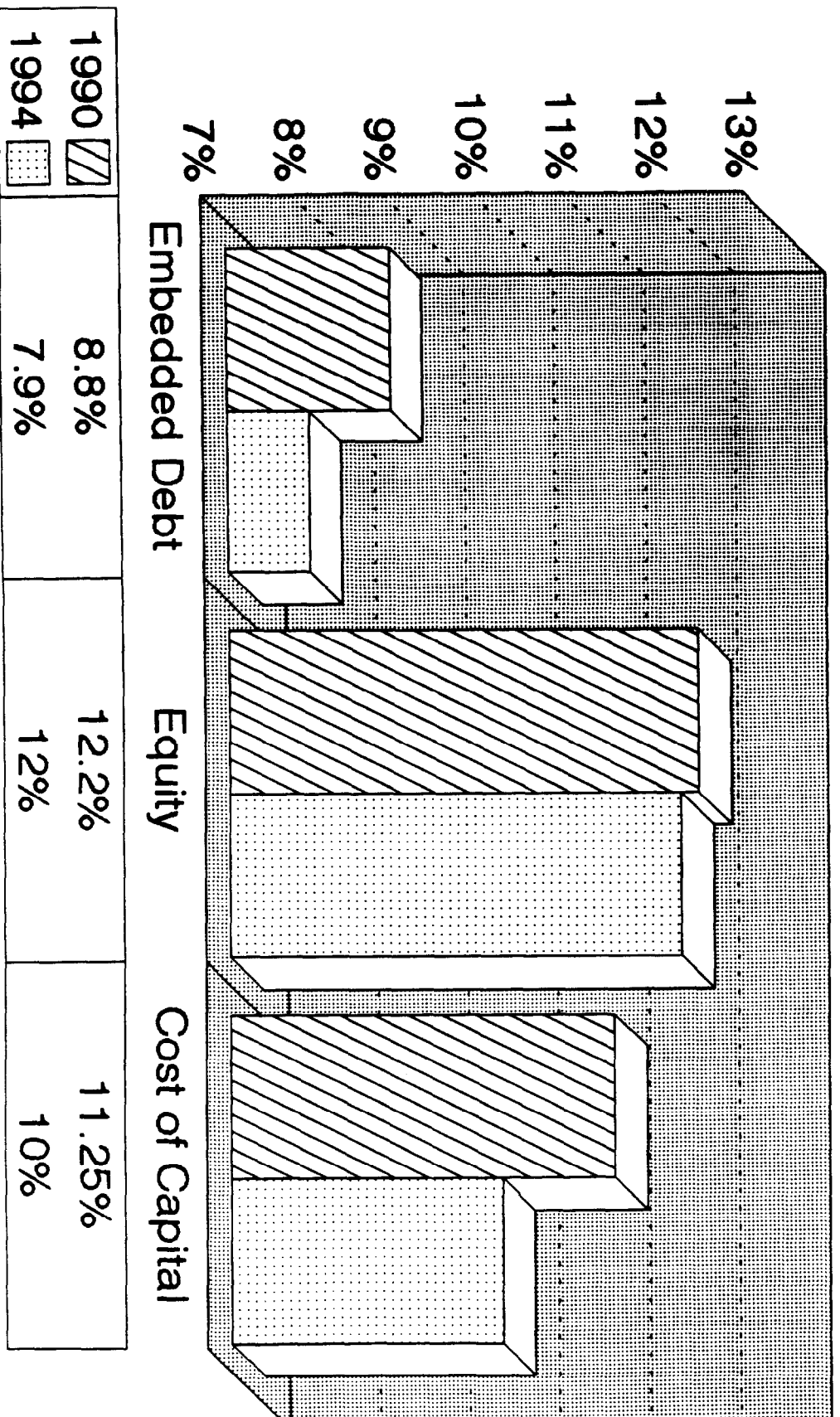


# LEC Capital Costs

1990 and 1994

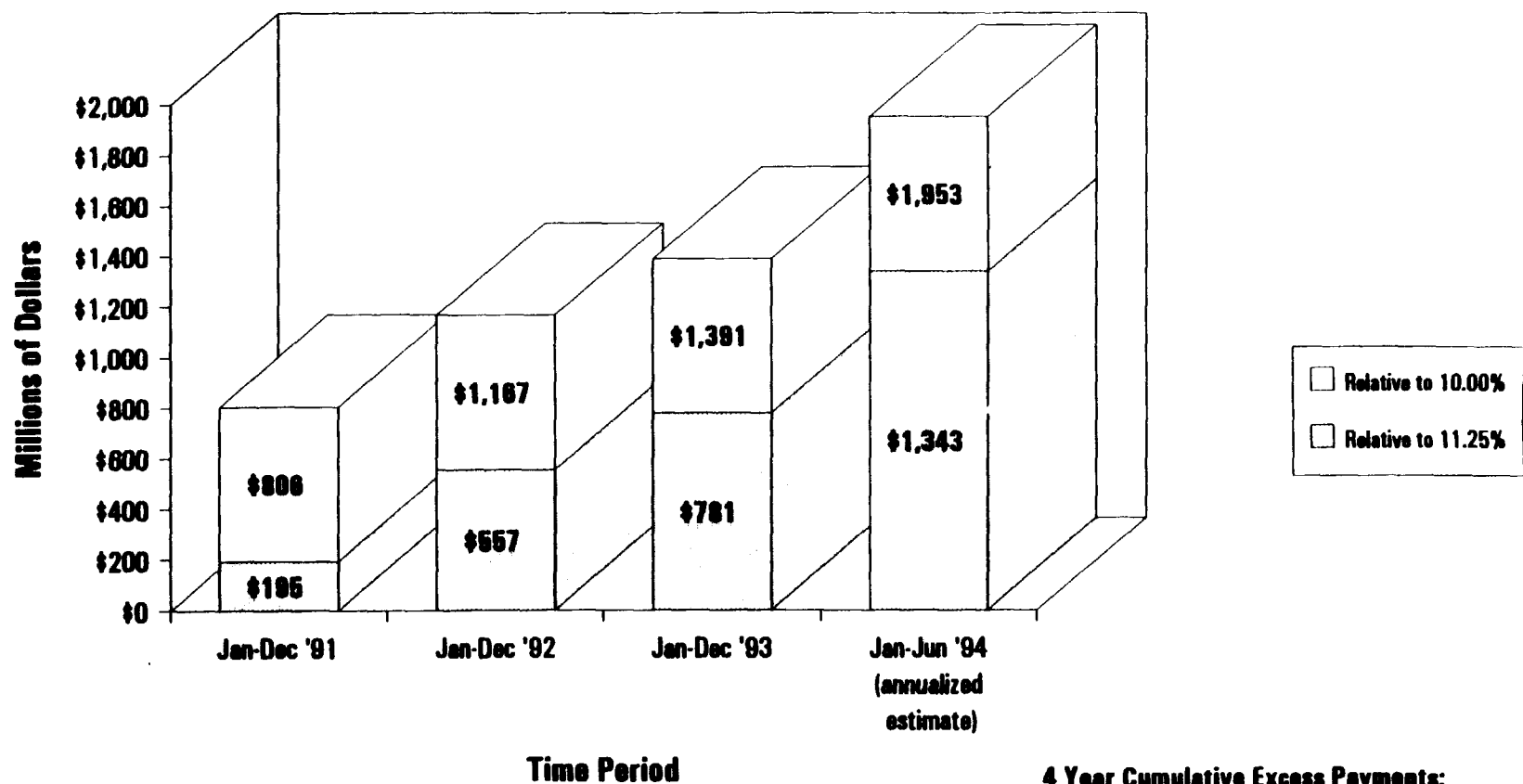


# Rate Cuts, Reinitialization Are Needed

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- Price caps have allowed cumulative excess revenue of \$2.9 billion
- LECs' annual revenues are now \$1.3 billion over an 11.25% return level
- LEC cost of capital is 10% -- \$600 million windfall vs. 11.25%
- Rate cut necessary to reflect FCC underestimates of LEC productivity

## ANNUAL EXCESS PAYMENTS TO PRICE CAP LECs RELATIVE TO 11.25% AND 10.00% COST OF CAPITAL



**4 Year Cumulative Excess Payments:**  
\$2.9 B relative to 11.25% cost of capital  
\$5.3 B relative to 10.00% cost of capital

# SHARING MUST CONTINUE

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- Insurance against excessive monopoly rates.
- Increasing every year. 1994 value could exceed \$400 million.
- Only means to compensate ratepayers for LEC abuses of accounting and other rules.
- Fines are not a sufficient deterrent for enforcement of FCC rules.

# Summary

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- Productivity factor no less than 5.7%
- Cost of capital of 10.0%
- Adjust rates downward
- Keep sharing